

VZCZCXRO3250
OO RUEHBI RUEHCI RUEHLH RUEHPW
DE RUEHNE #0541/01 0520545
ZNY CCCCC ZZH
O 210545Z FEB 08
FM AMEMBASSY NEW DELHI
TO RUEHC/SECSTATE WASHDC IMMEDIATE 0538
INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
RUCNCIS/CIS COLLECTIVE
RUEHDX/MOSCOW POLITICAL COLLECTIVE
RUEHMO/AMEMBASSY MOSCOW 2571
RUEAIIA/CIA WASHDC
RUEHUNV/USMISSION UNVIE VIENNA 1406
RHHMUNA/CDR USPACOM HONOLULU HI
RUCNDT/USMISSION USUN NEW YORK 6047
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RUEHGV/USMISSION GENEVA 7562
RHEFDIA/DIA WASHDC
RHMFISS/HQ USCENTCOM MACDILL AFB FL
RHHMUNA/HQ USPACOM HONOLULU HI
RHMFISS/HQ USSOCOM MACDILL AFB FL
RUEKJCS/JOINT STAFF WASHDC
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RHEHAAA/WHITE HOUSE WASHDC

C O N F I D E N T I A L SECTION 01 OF 04 NEW DELHI 000541

SIPDIS

SIPDIS

DEPARTMENT FOR EEB PHAYMOND, BHAENDLER, MMCANUS
DEPARTMENT FOR EEB/CIP DAS DGROSS, MSELINGER, EYEE
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, SJOHNSON,
GBISCONTI

E.O. 12958: DECL: 02/21/2018

TAGS: [PGOV](#) [PREL](#) [MARR](#) [MASS](#) [EAGR](#) [EPET](#) [ENRG](#) [TRGY](#) [ECPS](#)

KNNP, RS, IN

SUBJECT: INDIAN PEACOCK DOES MATING DANCE FOR VISITING
RUSSIAN BEAR

REF: A. NEW DELHI 04924

[1](#)B. MOSCOW 05512

[1](#)C. NEW DELHI 00474

[1](#)D. NEW DELHI 440

[1](#)E. NEW DELHI 2315

Classified By: POLCOUNS Ted Osius for reasons 1.4 (a,b,d)

[1](#)1. (C) SUMMARY: Three months after Prime Minister Singh's visit to Moscow, Prime Minister Zubkov of the Russian Federation visited New Delhi February 12, accompanied by Russian Trade Minister Elvira Nabiullina and approximately 125 senior executives representing Russian industry and business. Russia and India have publicly finalized and privately initialed their civil nuclear agreement to expand upon the existing Kudankulam agreement, but will wait for IAEA and NSG approval before signing it. The two countries struck an agreement whereby Russia will invest millions of its rupee debt holdings into construction of a jointly owned titanium plant in Orissa, and Moscow is exploring an Indian offer to use more of those funds for uranium mining in Jharkand. GOI petroleum officials reportedly pleaded with Russia for expanded stakes in the Russian Far East's Sakhalin oil and gas fields. After private meetings with President Patil, L.K. Advani and several senior Ministers of State, Zubkov and Singh presided over an evening gala celebration at Purana Qila to officially commemorate 2008 "The Year of Russia in India," a gesture agreed upon during President Putin's 2007 visit. Two minor memoranda of understanding were signed: one dealing with law-enforcement cooperation and another with archival agency cooperation. The business delegation's visit is a good step towards trying to boost the two countries' bilateral trade and investment, which is a miniscule portion of each country's commercial flows. However, several stiff hurdles in Russia's business and

regulatory environment work against significantly higher trade anytime soon.

-- NUCLEAR PLANTS, URANIUM MINING DISCUSSED --

12. (C) First Secretary Valery Khodzhaev of the Russian Embassy of New Delhi told Poloff February 15 that the Russians and Indians used the occasion of PM Zubkov's visit to privately initial the text of their civil-nuclear cooperation agreement, while in public the two Prime Ministers announced they had "finalized" the text. Khodzhaev stressed not to divulge that the text had been initialed. He noted that the two sides had finalized text in December, when Prime Minister Singh visited Moscow, but the Indians decided to delay the initialing. This time, Khodzhaev said, the Indians gave the go ahead with the initialing at very short notice. (Refs A and B). Khodzhaev reiterated that the agreement was conditional on the consent of the IAEA and NSG, and would be conducted within the confines of Russia's own domestic legislation. Zubkov discussed the nuclear agreement with External Affairs Minister Pranab Mukherjee, who underlined the Indian commitment to finishing the IAEA and NSG steps and completing the initiative. "He demonstrated that India is committed to accomplishing the IAEA and NSG actions," said Khodzhaev, who participated in the meeting (Ref C).

13. (C) Indian media reports surrounding Zubkov's visit alleged that Russia and India are exploring collaboration on uranium mining and enrichment in Jharkand state. Jharkand state authorities reportedly expressed interest in seeking Russian help to conduct geological surveys to determine the

NEW DELHI 00000541 002 OF 004

feasibility of this proposed project. Khodzhaev confirmed that the Russian delegation had discussed funding uranium mining with its rupee debt holdings, but that this discussion had not advanced very far.

-- INDIA THIRSTS FOR RUSSIAN OIL --

14. (SBU) According to Indian media, Petroleum and Natural Gas Minister Deora used a one-on-one meeting with Zubkov to plead India's case to gain a major stake in Russia's Sakhalin III and other major oil and gas projects in the Russian Far East. Deora previously made this pitch when he visited Moscow in November 2007, but was told by Zubkov to wait until his visit to India for a detailed discussion. Deora reportedly also urged Russian companies to invest in Indian oil and gas projects, specifically in the field of Liquefied Natural Gas (LNG) re-gasification terminals, and he offered investment opportunities in the Mangalore Refineries and Petrochemicals Limited's proposed LNG terminal. India is seeking long-term sources of oil and gas since it currently relies on imports for over 70% of its crude oil consumption and for about 23% of its natural gas consumption, with those shares expected to rise steadily.

-- RUSSIA, INDIA TRY TO STRENGTHEN BUSINESS CONNECTIONS --

15. (C) Zubkov was in New Delhi in part to preside over the second meeting of the Indo-Russian joint forum for trade and investment, the first one having taken place February 2007. Over 125 Russian businessmen accompanied Zubkov to New Delhi, including the heads of the Sistema Group, Siberian Ural Energy Group (SUEK) and the President of Russia's Union of Manufacturers and Businessmen. Zubkov also inaugurated a branch of the Vneshtorgbank in New Delhi during his visit, which is the second largest public sector bank of Russia. Zubkov met with Finance Minister Chidambaram, revealed Khodzhaev, and the Prime Minister observed that a new generation of Russian businessmen has started focusing on India for opportunities. Zubkov discussed how the Russians could use their rupee debt of USD 80 million to invest in different projects in India, said Khodzhaev, adding "all technical issues have been finalized" to begin construction

of a jointly owned and operated titanium plant in Orissa, the first such project to be financed by the rupee debt. (Comment: the technical issues could be a reference to Indian media reports in December 2007 that the joint venture ran into raw material sourcing problems and potential new competition in the state. End comment.) According to Indian media, Russia will invest up to USD 160 million (a 54 percent share) towards building this plant in Gopalpur in the state of Orissa.

¶6. (C) In the lead-up to Zubkov's visit, Indian media reported that Sistema Group was using the visit as the occasion to announce the opening of an office in New Delhi, and expected to gain a nation-wide, cell-phone operator's license through its joint venture with Shyam Telelink group. India media reported that the telecom agreement could involve a USD 5 billion investment by Sistema over the next three years. Khodzhaev denied these reports, stating that Sistema had signed no deals during Zubkov's visit. (Note: Total Russian investment in India from 2000 to November 2007, the latest available government data, was only \$54 million. These investments, if realized, would significantly raise the investment flow in a relative sense. Indian media report that Sistema's investment in Shyam, from November 2007 to January 2008, was roughly \$60 million, already more than the

NEW DELHI 00000541 003 OF 004

past seven years, but still less than 1 percent of investment into India in the last year. End note).

¶7. (C) The leaders took the opportunity of Zubkov's visit to restate the mutual objective first expressed in late 2006 of increasing bilateral trade between the two countries to USD 10 billion by 2010 (Ref D). Khodzhaev clarified that the two sides had expressed mutual hope to keep the pace of a 30 percent increase in trade every year, at least through 2010. (Note: Bilateral trade at the end of Indian Fiscal Year 2006-2007 was just \$3.3 billion. At 30 percent annual increase, bilateral trade would be just \$7.25 billion by March 2010. End note.) Prime Minister Singh stated in an official press conference February 12 that that Russia and India will "operationalize" a joint task force to study the economic arrangements between the two countries and to consider the implementation of a Comprehensive Economic Cooperation Agreement (CECA). Commerce and Industry Minister Kamal Nath remarked to media that Russian business is specifically interested in investing in Indian engineering, metallurgy, automobile, aircraft construction and infrastructure.

(A BEETLE IN THE OINTMENT)

¶8. (C) Indian officials reportedly complained to Russian officials in Zubkov's entourage about the comprehensive ban the Russian government slapped on Indian agricultural imports, historically an important part of bilateral trade, on January 28, after discovering a live "Khapra" beetle in a shipment of Indian sesame seeds headed for Russian markets. The Russians had worried that the beetle could have proliferated throughout Russia, and if one larva survived the winter, it would be a "catastrophe," said Khodzhaev. He confirmed that the agricultural ban was still in place, and AgOffs have ascertained that Russia has relaxed the ban on bulk tea, coffee and spices, with strict packaging conditions.

-- DEFENSE SALES CONTINUE TO BE AN IRRITANT --

¶9. (C) The benighted Russian aircraft carrier Gorshkov continues to be a painful thorn on the rose of Indo-Russian defense relations, as the dispute over how much the Indian government should pay to take delivery of the ship simmers on. Indian media reports that Defense Secretary Vijay Singh will lead a high-powered team to Russia February 19 to continue the price negotiations, which have been grinding along ever since April 2007, when Russia began hiking the

cost of refurbishing the vessel far beyond the contracted amount. Russia is now demanding USD 1.2 billion more on top of the USD 1.5 billion price agreed upon in 2004 (Ref E).

¶10. (C) Another recent irritant in the defense relationship surfaced into public scrutiny in January when it was revealed that the Indian navy has pointedly refused to take delivery of the Kilo-class submarine INS Sindhuvi Jay, which was extensively refitted at the Zvyozdochka shipyard, due to its multiple failures to launch Klub-S cruise missiles as expected. This submarine was just the first of six-Kilo class vessels planned for refitting by Russia in USD 211 million deal struck in 2005.

-- MEMORANDA OF UNDERSTANDING SIGNED: NOT VERY SUBSTANTIVE DELIVERABLES --

¶11. (SBU) The Russian and Indian governments signed two

NEW DELHI 00000541 004 OF 004

Memoranda of Understanding during Zubkov's visit, one an agreement facilitating closer law-enforcement and customs agencies cooperation to combat smuggling of contraband, drugs and dual-use items, and the second, an agreement for cooperation between the archival agencies of the two countries. (The complete text of these agreements can be found at: www.mea.gov.in, under "press releases.")

-- COMMENT: NUKE DEAL STILL CONTINGENT UPON OTHER COMMITMENTS --

¶12. (C) COMMENT: India and Russia have settled on a civil nuclear holding pattern similar to what occurred with the French. The difference, of course, is that the Russian agreement actually names a site (Kudankulam) and a number of reactors (four) because it is technically an amendment to the existing Kudankulam agreement, as opposed to the French agreement, which is a framework agreement like the 123. However, like the French, the Russian agreement is conditional on NSG and IAEA actions. The Russians are visibly putting a stronger emphasis on their business-to-business relationship with India in an attempt to turn back the 15 years of neglect that have cast a pall over Indo-Russian trade since the collapse of the Soviet Union. Defense sales to India, which had been the only remaining trade linchpin between the two countries throughout the 90s, are now floundering in a sea of mutual mistrust and bad blood, fueled by Indian accusations of shoddy goods and price-gouging. The old guard in Moscow and New Delhi, who have nostalgic reasons for preserving the historical friendship, seem to have woken up to the fact that defense sales alone will no longer sustain Indo-Russian economic ties, and are seeking to diversify the relationship through increased mutual investments in civilian nuclear technology, oil, banking and telecommunications. However, these are not easy sectors in India to move into and increasing Russian participation may take time. Further, the visit did not appear to address the hurdles to trade between the countries, making real progress there difficult. END COMMENT.

MULFORD